European Regulators Group
for Electricity and Gas (ERGEG)
c/o Council of European Energy Regulators (CEER)
Rue de Titien 28

B-1000 Brussels

12th May 2010

Benchmarking report on medium and long-term electricity allocation rules Swissgrid response to public consultation

Dear Sir or Madam,

On behalf of Swissgrid, the Swiss Transmission System Operator (TSO), we are pleased to hereby provide our response to the public consultation "Benchmarking report on medium and long-term electricity allocation rules".

Although Switzerland is a not an EU-country and is not formally involved in the ERGEG Electricity Regional Initiatives (ERIs), Swissgrid supports the idea of establishing a single European electricity market. Especially the challenges of building a sustainable future electricity system by the integration of renewable energy sources do require a harmonisation of congestion management procedures in Europe.

We consider the integration of new renewable energy resources, especially wind and solar based production, with its volatile and intermittent generation in the European grid as one of the main challenges, which especially requires further development of the short term trading possibilities. In this context we think that the Ad Hoc Advisory Group (AHAG) has tackled the right topics. It focuses on the key areas capacity calculation, day-ahead market coupling, intraday trade and governance. The AHAG is effectively tasked with the consultation on the development of a framework guideline on capacity allocation and congestion management. Swissgrid supports proactively the AHAG working groups.

Concerning the membership of the Swiss borders as described in the report we would like to make a clarification: Since Switzerland is not an EU member state, Switzerland is consequently not assigned to any of the regions specified in the Regulation (EC) No 714/2009 (chapter 3.2). The "Central-South region" was called as "Italy[1]" includes all countries in that region that border on Italy. Therefore Germany was only affiliated to the region "Italy" and defined as an overlapping country since Switzerland is a non-EU country. Concerning the Swiss borders we therefore consider that only the border to Italy can be seen as a part of the Central-South region (which is why Switzerland is participating in that region on a voluntary basis). With respect to the strong historical, technical and economical interrelations, the other three northern Swiss borders (France, Germany and Austria) should be most likely part of the CWE and the CEE region. The valid assignment of all Swiss borders is still part of the bilateral negotiations between the EU and Switzerland.

Question 1: Do you think that an important degree of convergence has been reached in terms of conditions for participation in the auctions, the characteristics of allocated products and the functioning of secondary markets?

Answer 1: In central Europe explicit auction procedures are widely harmonised, including secondary markets. This also includes the auctions at the Swiss borders.

The auction products are oriented at the preferences of the market participants. Countries with volatile or flexible production units (wind or pump storage hydro power plants) require a higher percentage of short-

[1] The German edition of the Regulation even defines the region as „Northern borders of Italy"

term capacity products. Other countries prefer a higher percentage of long-term products in order to reduce the risk of volatile prices for their customers. In order to fulfil the preferences of all market participants we therefore support the idea of the PCG target model. Because the quality of transmission capacity calculation mainly depends on an exact load and generation forecast, it is consequently more precise on a short-term basis. In this sense, physical capacity should be auctioned mainly on day-ahead and intraday markets while risks of price volatility should be hedged by using financial transmission rights (FTRs).

Question 2: Do you think that a special attention should be paid by ERGEG on lack of harmonisation of auction rules, lack of firmness of both allocated and nominated capacities and longterm financial capacity products not allocated by TSOs?

Answer 2: From our point of view there has been made considerable progress concerning the harmonisation of auction rules. Besides the harmonisation within the regions latest work has even started to procure a harmonisation between the regions. We think that this progress shows that the current work is going in the right direction and Swissgrid supports basically the idea of harmonisation. Therefore Swissgrid is working together with the ERIs Central-West and Central-South on a solution for a common auction office.

Nevertheless we would like to point out that harmonisation must go in the direction of the PCG target model. It also must be guaranteed that harmonisation is not made on the basis of the lowest common denominator. That means harmonisation should not result in a step back for countries that have further developed auction procedures.

Concerning firmness we consider the following key points as necessary to be taken into account:

- It must be ensured that compensation payments are either financed by auction revenues or can be included within grid tariffs. Otherwise TSOs would be incentivised to reduce cross-border capacities in order to reduce compensation payments.
- TSOs should be incentivised to increase firm cross-border capacities (redispatch costs fully covered by auction revenues or gird tariffs, revenue sharing)
- The question of compensation payments must be discussed dependent on the criterion whether interconnection capacity is only allocated or already nominated:
    - If *allocated* capacity is reduced, traders still should be incentivised to pursue other alternatives. The default of allocated capacity should therefore not be compensated with the full market spread but with the auction price. Otherwise traders could tend not to look for alternatives since their pay-off is the same like when the capacity was used.
    - If *nominated* capacity is reduced, traders are not able to react anymore. Compensation payments should therefore incentivise TSOs to take appropriate measures.

Question 3: What share of the available transmission capacity should be allocated on long-term basis and what should be reserved for short-term allocations? Please, give your justification for the proposed shares.

Answer 3: Cf. answer to question 1.

Question 4: What concrete improvement in long-term auction rules would you propose?

Answer 4: Cf. answer to question 1.

Question 5: What are the main difficulties, concerning auction rules, for trading electricity on a longterm basis from one country to another crossing several interconnections?

Answer 5: It must be mentioned that the long distance transport of energy also generates higher costs and increases the risk for system security. The present system does not offer price signals for necessary grid and production investments. We therefore consider it as important to incentivise production close to consumer centres. Especially alternative approaches like locational signals and nodal pricing deserve in this context additional analysis.

Question 6: How do you see the development of auction platforms and what would you consider the most efficient solution for the internal electricity market (a more centralised approach or the current decentralised one) taking into account the developments on the solutions for day-ahead and intraday timeframes?

Answer 6: We basically support the idea of centralisation where it is useful. We therefore support the idea that long-term auctions should be operated by a central service provider in order to realise synergy effects. The service-provider should be assigned and governed by the TSOs in coordination with the NRAs.

It must be taken into account that the maintenance of security of supply is a task that is given to the TSOs. Additionally, only the national TSOs have deeper knowledge of the local grid conditions. They therefore should also be responsible for the calculation of available capacity. Thus from our point of view only a decentralized approach can be applied here.

Since security of supply should have the highest priority, the definition of the interfaces between TSOs and service providers (e.g. auction offices, power exchanges) must be clearly defined by TSOs in coordination with the NRAs.

Question 7: Any other comments.

Answer 7: No

Best regards,

Swissgrid Ltd.

Alexander Wirth
Head of European Affairs

Timur Soemantri
Marketproducts and Analysis